

CONFORMED COPY

LOAN NUMBER 4110 PH

Loan Agreement

(Water Resources Development Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 20, 1996

LOAN NUMBER 4110 PH

LOAN AGREEMENT

AGREEMENT, dated December 20, 1996, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at

any time the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) "Action Plan" is the Action Plan for Reforms Relating to the National Water Resources Board of November 1995;
- (b) "DENR" means the Borrower's Department of Environment and Natural Resources and any successor thereto;
- (c) "DENR Parts of the Project" means Parts A.2 and A.3 of the Project;
- (d) "DENR Special Account" means the account referred to in Section 2.02 (b) (i) of this Agreement;
- (e) "DOH" means the Borrower's Department of Health and any successor thereto;
- (f) "IA" means Irrigators' Association, an association of farmers who jointly own and operate a communal irrigation system or who share the use of a portion of a national irrigation system, registered with the Borrower's Security and Exchange Commission in accordance with Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as may be amended from time to time; and "IAs" means, collectively, Irrigators' Associations;
- (g) "Irrigation System Improvement Plan" means an irrigation system improvement plan furnished to the Bank in accordance with Part B (2) (b) of Schedule 5 to this Agreement, for each NIS selected under Part B.1 of the Project;
- (h) "NIA" means the National Irrigation Administration, a government-owned entity responsible for irrigation development and for the design, construction, operation and maintenance of the national irrigation systems, and any successor thereto;
- (i) "NIA Special Account" means the special account referred to in Section 2.02 (b) (ii) of this Agreement;
- (j) "NIS" means a national irrigation system which is operated and maintained by NIA;
- (k) "NWRB" means the National Water Resources Board, an agency of the Borrower attached to the Borrower's Department of Public Works and Highways, which is responsible under the Philippine Water Code of 1976 for coordinating, supervising and regulating the development,

utilization and protection of water resources in the territories of the Borrower, and any successor thereto;

(l) "Resettlement Policy Framework" means the Policy Framework for Resettlement of Project Affected Families of February 1996, as amended in August and September 1996, approved by the Borrower through NIA, which sets out the policies and procedures governing land acquisition, resettlement and compensation in connection with the implementation of Part B of the Project, and the reporting and monitoring arrangements to ensure compliance with said policies and procedures;

(m) "SPAF" means a seriously project affected family as defined in the Resettlement Policy Framework; and

(n) "Special Accounts" means the DENR Special Account and the NIA Special Account, collectively, and "Special Account" means one of the Special Accounts.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifty eight million dollars (\$58,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars:

- (i) a special deposit account for Parts A.2 and A.3 of the Project; and
- (ii) a special deposit account for Parts A.1, B, C and D of the Project; each in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Accounts shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period:
(A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01 (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A.1 and D.1 of the Project through NWRB, Parts A.2 and A.3 through DENR, Parts B, C.2, C.3, D.2 and D.3 through NIA, and Part C.1 through DOH, all with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services, personnel and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the continuing implementation of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall exchange views with the Bank at

least annually on the progress in establishing a comprehensive institutional and policy framework for water resources management in accordance with the Action Plan.

Section 5.02. The Borrower shall cause NIA to:

(a) take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amount as shall be consistent with appropriate practice;

(b) carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and agricultural practice under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make necessary repairs and renewals thereof, all in accordance with sound engineering, financial and agricultural practice.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Department of Finance
Bangko Sentral ng Pilipinas Complex
Manila
Republic of the Philippines

Telex:

40268 CB-CONF

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex:

INTBAFRAD 248423 (MCI) or
Washington, D.C. 64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By /s/ Raul Ch. Rabe

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Javed Khalizadeh-Shirazi

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
DENR Parts of the Project		
(1) Works	6,600,000	100% of foreign expenditures and 72% of local expenditures
(2) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) for Part A.2 of the Project	100,000	
(b) for Part A.3 of the Project	1,500,000	
(3) Incremental Operating Costs:		
(a) for Part A.2 of the Project	20,000	25%
(b) for Part A.3 of the Project	480,000	25%
Parts A.1, B, C and D of the Project		
(4) Works:		100% of foreign expenditures and 72% of local expenditures
(a) for Part B.1 of the Project	31,000,000	
(b) for Part C.1 of the Project	100,000	
(c) other works	14,700,000	
(5) Goods:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(a) for Part C.1 of the Project	200,000	
(b) other goods	2,700,000	

(6) Incremental Operating Costs:

(a) for Part C.1 of the Project	20,000	25%
(b) for other Parts of the Project	580,000	25%
TOTAL	58,000,000	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Incremental Operating Costs" means compensation for additional staff under Parts A.3, C.3 and D.1 of the Project; honoraria for staff under Parts A and C.1 of the Project, and for non-governmental organizations participating in Part A.3 of the Project; remuneration for Farmer Irrigator Organizers and honoraria for Water Resources Facilities Technicians acting as Institutional Development Officers under Parts D.2 and D.3 of the Project; operating costs for equipment under Part C.3 of the Project, additional administrative support, printing and travel cost of project staff.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) payments made for expenditures under Category 4 (a) for a NIS under Part B.1 of the Project until: (i) all necessary land acquisition, compensation and resettlement have been completed in accordance with Part B (1) (b) of Schedule 5 to this Agreement, and (ii) the Irrigation System Improvement Plan for such NIS has been approved by the Bank in accordance with Part B (2) (b) of Schedule 5 to this Agreement;

(c) payments made for expenditures in respect of Categories 4 (b), 5 (a) and 6 (a) until the Memorandum of Agreement between NIA and DOH has been executed in accordance with Part C of Schedule 5 to this Agreement; and

(d) payments made for expenditures under Categories 1, 2 (b) and 3 (b) under Part A.3 of the Project until the Borrower has provided the Bank with a list of selected critical watersheds and the Bank has given its concurrence thereto.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) works under: (i) contracts costing less than \$5,000,000 equivalent, (ii) force account and (iii) community participation;

(b) goods under contracts costing less than \$1,000,000 equivalent; and

(c) Incremental Operating Costs;

all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (a) developing an appropriate policy and institutional framework to improve water resources development and management; (b) initiating an integrated program for watershed management; (c) improving efficiency in irrigation in order to raise agricultural production; (d) improving irrigation services by strengthening the responsible agencies and by promoting the turnover of irrigation systems to water users; and (e) improving the environment in irrigated areas.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A: Water Resources and Watershed Management

1. Formulation of a national water resources plan and establishment of information networks for the collection and dissemination of data on water resources through the provision of consultants' services, goods and training.
2. Development of a long-term national strategy for watershed management and an investment and institutional strengthening program therefor through the provision of consultants' services and study tours.
3. Improvement in the management of selected critical watersheds through, inter alia, reforestation, agro-forestry, river bank protection, farm system improvement and provision of infrastructure.

Part B: Improvement and Repair of National Irrigation Systems

1. Improvement of fourteen (14) selected NIS listed in Part A of the Annex to this Schedule, serving about 110,000 hectares, through, inter alia, the construction of silt excluders and new structures to regulate and control water level and distribution, resectioning of the canals, strengthening of the banks, excavation of new drainage canals, and installation of measurement facilities.
2. Major repairs of structures of the NIS of Lower Chico and Apayao-Abulog in Cagayan Province, Region 2, of Santa Cruz-Mabacan in Laguna Province, Region 4, of Sibalom-San Jose in Antique Province, Region 6, of Aklan-Panakuyan in Aklan Province, Region 6, of Gibong and Cabadbaran-Taguibo in Agusan del Norte Province, Region 10 and of Tago in Surigao del Sur Province, Region 11, together serving about 34,000 hectares; and strengthening of the Masiway dam.
3. Construction of five (5) silt excluders in the NIS of Amburayan in La Union Province, Region 1, of Daet-Talisay-Matogdon in Camarines Norte Province, Region 5, of Lupon in Davao Oriental Province, Region 11, of Batutu in Davao del Norte Province, Region 11 and of Malasila in North Cotabato Province, Region 12, together serving about 16,000 hectares.

Part C: Environmental Improvement

1. Control of schistosomiasis in the areas covered by the NIS of Andanan in Agusan del Sur Province, CARAGA Region, of Dipolo in Zamboanga del Sur Province, Region 9 and of M'Lang/Malasila in North Cotabato Province, Region 12, together serving about 8,000 hectares, through the provision of, inter alia, equipment, materials, toilets, and drugs and the launching of an information campaign.
2. Control of erosion in critical areas in thirty-one (31) selected NIS listed in Part B of the Annex to this Schedule, serving about 152,000 hectares, through the planting and maintenance of appropriate vegetation to prevent rainfall runoff erosion of vulnerable slopes,

gullies and embankments.

3. Monitoring of the sediment pattern in the NIS of Dipolo, Jalaur Proper and M'lang to establish the pattern of sediment load and its entry into canals and movement downstream.

Part D: Institutional Strengthening and Training

1. Strengthening of the technical capabilities of NWRB through adequate staffing and the provision of consultants' services, goods and training.

2. Strengthening of the technical capabilities of NIA in the areas of accounting, equipment management, irrigation system design, irrigation management, computerized management information system and environmental assessment and management, through the provision of consultants' services, training and equipment.

3. Development and strengthening of IAs through the provision of consultants' services and training and the recruitment of Farmer Irrigator Organizers.

The Project is expected to be completed by December 31, 2001.

Annex to Schedule 2

Part A

	Name of NIS	Province	Region
1.	Magapit	Cagayan	2
2.	San Pablo-Cabagan	Isabela	2
3.	Tumauini	Isabela	2
4.	Magat River Integrated Irrigation System-District II	Isabela	2
5.	Angat-Maasim	Bulacan/ Pampanga	3
6.	Camiling	Tarlac/ Pangasinan	3/1
7.	Balanac	Laguna	4
8.	Baco-Bucayao	Oriental Mindoro	4
9.	Pagbahan	Occidental Mindoro	4
10.	Jalaur (Proper)	Iloilo	6
11.	Sibalom-Tigbauan	Iloilo	6
12.	Dipolo	Zamboanga del Sur	9
13.	Andanan Wawa	Agusan del Sur	
		CARAGA	
14.	M'lang	North Cotabato	12

Part B

	Name of NIS	Province	Region
1.	Tagudin	Ilocos Sur	1
2.	Dumoloc	Pangasinan	1
3.	Lower Agno	Pangasinan	1
4.	Magapit	Cagayan	2
5.	San Pablo-Cabagan	Isabela	2
6.	Angat-Maasim	Bulacan/ Pampanga	3
7.	Camiling	Tarlac/ Pangasinan	3/1
8.	Porac-Gumain	Pampanga	3
9.	Tasmoris	Tarlac	3
10.	Malatgao	Palawan	4
11.	Dumacaa	Quezon	4
12.	Sta. Cruz-Mabacan	Laguna	4
13.	Tigman	Camarines Sur	5
14.	Hinagyanan	Camarines Sur	5
15.	Jalaur (Proper)	Iloilo	6
16.	Sibalom-San Jose	Antique	6
17.	Barotac-Viejo	Iloilo	6
18.	Daguitan	Leyte del Norte	8
19.	Salug	Zamboanga del Sur	9

20.	Dipolo	Zamboanga del Sur	9
21.	Sibuguey Valley	Zamboanga del Sur	9
22.	Labangan	Zamboanga del Sur	9
23.	Pulangui	Bukidnon	10
24.	Muleta	Bukidnon	10
25.	Andanan	Agusan del Sur	
		CARAGA	
26.	Padada	Davao del Sur	11
27.	Siluay	South Cotabato	11
28.	Lupon	Davao Oriental	11
29.	Banga	South Cotabato	11
30.	Alip	Maguindanao	12
31.	Rugnan	Lanao del Sur	12

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
July 15, 2002	1,220,000
January 15, 2003	1,255,000
July 15, 2003	1,295,000
January 15, 2004	1,330,000
July 15, 2004	1,370,000
January 15, 2005	1,415,000
July 15, 2005	1,455,000
January 15, 2006	1,500,000
July 15, 2006	1,545,000
January 15, 2007	1,590,000
July 15, 2007	1,640,000
January 15, 2008	1,690,000
July 15, 2008	1,740,000
January 15, 2009	1,790,000
July 15, 2009	1,845,000
January 15, 2010	1,900,000
July 15, 2010	1,955,000
January 15, 2011	2,015,000
July 15, 2011	2,075,000
January 15, 2012	2,140,000
July 15, 2012	2,200,000
January 15, 2013	2,270,000
July 15, 2013	2,335,000
January 15, 2014	2,405,000
July 15, 2014	2,480,000
January 15, 2015	2,555,000
July 15, 2015	2,630,000
January 15, 2016	2,710,000
July 15, 2016	2,790,000
January 15, 2017	2,860,000

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

3. The following provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,800,000 equivalent, which may be required for use at different times and in scattered locations, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$2,500,000 equivalent per contract, up to an aggregate amount not to exceed \$29,600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Drugs and other goods for Part C.1 of the Project costing \$200,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Force Account

Works under Parts B and C.1 which meet the requirements of paragraph 3.8 of the Guidelines, and (a) in the case of Part B, costing less than \$600,000 equivalent per assignment, up to an aggregate amount not to exceed \$18,000,000, and (b) in the case of Part C.1, costing less than \$25,000 equivalent per assignment, up to an aggregate amount not to exceed \$100,000 equivalent, may, with the Bank's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

5. Community Participation

Works for Parts A.3, B and C.2 of the Project estimated to cost less than \$200,000 per contract, up to an aggregate amount not to exceed \$11,600,000, may be procured from IAs or other groups of farmers in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to (a) each contract for (i) goods estimated to cost \$1,000,000 equivalent or more, or (ii) works estimated to cost \$5,000,000 or more, and (b) the first three (3) contracts each for goods and for works, regardless of the estimated cost thereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 5

Implementation Program

A. Part A of the Project

1. In respect of Part A.1 of the Project, the Borrower shall cause NWRB to:

- (a) (i) undertake and, by December 31, 1999, furnish to the Bank for its comments a national water resources planning study in accordance with terms of reference developed in consultation with the Bank; and
- (ii) thereafter take appropriate steps to implement the recommendations of said study taking into consideration the Bank's comments thereon.
- (b) (i) undertake and, by December 31, 1999, furnish to the Bank for its comments a study for the improvement of the national networks for the collection of data on stream-flow, groundwater and water quality, in accordance with terms of reference developed in consultation with the Bank; and
- (ii) thereafter take appropriate steps to implement the recommendations of said study taking into consideration the Bank's comments thereon;
- (c) (i) undertake and, by December 31, 1999, furnish to the Bank for its comments a study for the establishment of a national water information network, in accordance with terms of reference developed in consultation with the Bank; and
- (ii) thereafter take appropriate actions to implement the recommendations of said study taking into consideration the Bank's comments thereon;
- (d) by June 30, 1997, assign to the Bureau of Research and Standards, the Mines and Geosciences Bureau and the Environmental Management Bureau the formal responsibility for maintaining national information networks for the collection of data on streamflow, groundwater and water quality, respectively; and
- (e) (i) by June 30, 1997, establish a National Water Resources

Data Coordination Center with functions and responsibilities defined in consultation with the Bank, and

- (ii) adequately staff such center with qualified and experienced personnel and provide other necessary resources to enable it to achieve its purposes.

2. In respect of Part A.2 of the Project, the Borrower shall cause DENR to:

- (a) undertake and, by December 31, 1998, furnish to the Bank for its comments a study in accordance with terms of reference developed in consultation with the Bank for the formulation of a comprehensive long-term strategy and program for the management of watersheds and the preparation of detailed management plans for critical watersheds; and

- (b) thereafter take appropriate actions to implement the recommendations of said study taking into consideration the Bank's comments thereon.

B. Part B of the Project: Improvement and Repair of National Irrigation Systems

1. The Borrower shall cause NIA, prior to commencing work on each NIS under Part B.1 of the Project:

- (a) to undertake the acquisition of all necessary land and other property, compensation therefor and resettlement in accordance with the principles and institutional procedures established in the Resettlement Policy Framework;

- (b) for each NIS where the number of SPAFs is higher than twenty-five (25), to prepare and furnish to the Bank a detailed resettlement action plan acceptable to the Bank documenting the implementation arrangements for resettlement, including compensation, relocation and rehabilitation; and

- (c) to complete the implementation of such resettlement action plan in a manner satisfactory to the Bank.

2. The Borrower shall cause NIA to:

- (a) prepare and, by June 30 of each year, commencing in 1997, furnish to the Bank the work program for the following year satisfactory to the Bank, such work program to include, inter alia, the plan for the acquisition of necessary land and other property, compensation therefor and resettlement described in paragraph 1 (a) above, engineering data, cost estimates, implementation arrangements and funding proposal;

- (b) prior to commencing improvement work on each of the 14 selected NIS under Part B.1 of the Project:

- (i) consult with the IAs affected by such NIS with the view to obtaining their agreement on an improvement and work plan and their commitment to cooperate and share the implementation costs by contributing their share of labor; and

- (ii) prepare and, at least six months prior to commencing work, furnish to the Bank for its concurrence an Irrigation System Improvement Plan for such NIS in a form acceptable to the Bank which shall include, inter alia, an operation plan, a maintenance plan, anticipated increase in irrigated acreage, budget and distribution of responsibility agreed between NIA and the relevant IAs; and

- (c) implement such Irrigation System Improvement Plan in a manner satisfactory to the Bank.

3. The Borrower shall ensure that all dams and reservoirs supplying water to the NIS under this Project are maintained and inspected periodically in accordance with sound engineering practice, underarrangements satisfactory to the Bank, to determine whether there are any deficiencies in the condition of the structures, or in the quality and adequacy of maintenance or the methods of operations thereof which may endanger their safety.

C. Part C of the Project: Environmental Improvement

In respect of Part C.1 of the Project, the Borrower shall cause NIA and DOH to execute a Memorandum of Agreement satisfactory to the Bank whereby NIA shall transfer the necessary equipment, materials and funds to DOH to enable DOH to implement this Part of the Project.

D. Part D of the Project: Institutional Strengthening and Training

1. The Borrower shall cause an Environmental Unit to be established as part of NIA by June 30, 1997, with functions and responsibilities defined in consultation with the Bank, and maintained with adequate and experienced personnel and sufficient resources to enable such Unit to fulfill its responsibilities.

2. The Borrower shall cause NIA to:

(a) formulate and, by December 31, 1997, furnish to the Bank for comments an equipment management policy; and

(b) thereafter take actions to implement such policy taking into consideration the Bank's comments thereon.

3. The Borrower shall cause NIA to:

(a) formulate and, by June 30, 1997, furnish to the Bank for comments a policy to protect staff who work on NIS which are projected to be turned over completely to relevant IAs; and

(b) thereafter take actions to implement such policy taking into consideration the Bank's comments thereon.

4. The Borrower shall cause NIA to:

(a) carry out a pilot program of volumetric pricing on at least one lateral of a NIS by December 31, 1999 in accordance with terms of reference developed in consultation with the Bank; and

(b) consult with the Bank on the results thereof.

5. In respect of Part D.3 of the Project, the Borrower shall cause NIA:

(a) by December 31, 1997, to:

(i) identify Institutional Development Officers working in regional offices and transfer them to the field;

(ii) identify Water Resources Facilities Technicians to be trained to work as Institutional Development Officers and provide them with such training; and

(iii) provide revised job descriptions to all staff assigned to the Institutional Development Program prior to the commencement of their new duties.

(b) (i) by June 30, 1997, to set up system management committees for all NIS which are included in Part A of the Second Irrigation Operations Support Project financed by the Bank pursuant to the Loan Agreement between the Borrower and the Bank dated June 9, 1993 (Loan No. 3607-PH), with membership, functions and responsibilities acceptable to the Bank;

- (ii) to monitor the functioning of such system management committees and discuss the results thereof with the Bank; and
- (iii) if such results are deemed positive upon consultation with the Bank, to establish, by December 31, 1998, system management committees for all NIS included in Part B.1 of the Project.

(c) by June 30, 1997 to enter into revised Memoranda of Agreement with IAs providing for direct billing of irrigation services fees for NIS which have been improved and turned over to such IAs under this Project and under such Second Irrigation Operations Support Project.

E. Monitoring and Reporting

Without limitation upon the provisions of Section 9.07 of the General Conditions, and in accordance with the performance monitoring indicators set forth in Schedule 6 to this Agreement, the Borrower shall cause:

(a) each of NWRB, DENR, NIA and DOH to prepare, by June 30 and December 31 of each year, commencing in 1997, a semi-annual report of the progress of implementation of their respective components of the Project; and

(b) NIA, commencing in 1997, to consolidate all such reports and furnish a consolidated semi-annual report to the Bank within two (2) months after the end of the semester covered by such reports.

SCHEDULE 6

Performance Indicators

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means for the NIA Special Account, Categories 4, 5 and 6 (collectively the NIA Categories) and for the DENR Special Account, Categories 1, 2 and 3 (collectively the DENR Categories), all as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equal to:

- (i) \$3,000,000 for the NIA Special Account; and
- (ii) \$500,000 for the DENR Special Account;

to be withdrawn from the Loan Account and deposited into such Special Account pursuant to paragraph 3 (a) of this Schedule; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$1,000,000 for the NIA Special Account and \$200,000 for the DENR Special Account until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the amounts of \$15,000,000 for the NIA Categories and \$2,000,000 for the DENR Categories, respectively.

2. Payments out of a Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this

Schedule.

3. After the Bank has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the said Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into said Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into said Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Bank requests for deposits into said Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into said Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of said Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for said Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to said Categories, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwith-

drawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the said Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of a Special Account:

- (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or
- (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank:
 - (A) provide such additional evidence as the Bank may request; or
 - (B) deposit into said Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified.

Unless the Bank shall otherwise agree, no further deposit by the Bank into said Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in a Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

